

e-Circular

SME BUSINESS UNIT.

Sl. No. : 760/2009 - 10

Circular No. : NBG/SMEBU-SBI SMILE/72/2009 -
10

Saturday, February 13, 2010.

The Chief General Manager
State Bank of India
Local Head Office
All Circles

NBG SME BU/1262

February 11, 2010

Dear Sir,

SBI Small and Micro Interest-free Loan as Equity (SBI SMILE)

Lack of adequate equity or owner's contribution has been one of the biggest hurdles for entrepreneurship development in the country. Having realized this, the Bank had launched a scheme way back in 1978 called the 'Equity Fund Scheme'. Under this scheme eligible first time entrepreneurs were provided equity assistance up to a maximum of Rs. 1.00 lac to meet shortfall in their own contribution for financing their projects. This equity assistance was an interest-free long term loan which was to be repaid in about 5 to 7 years after repayment of all normal term loans availed for the project. The scheme was quite popular in the initial years. However, for a variety of reasons, mainly the small quantum of assistance provided under the scheme in relation to present day project costs and lack of any marketing for the scheme, there has not been any transaction in the Equity Fund account since 1990.

2. In view of the relevance of promoting entrepreneurship in the present context of growth oriented economy, there is a felt need for supporting innovative entrepreneurs especially with technical and professional qualifications who are unable to put in the required margin money. Accordingly, it has been decided to launch a scheme called 'SBI Small and Micro Interest-free Loan as Equity' (SBI SMILE) for providing equity assistance up to a limit of Rs.10.00 lacs to applicants with technical and professional qualifications, satisfying the conditions as detailed in the scheme furnished in Annexure 1. Concomitantly, the existing equity fund scheme will be discontinued with immediate effect.

3. In this connection, the Core Banking Project at Global IT Centre has created following new products:

Product description: SBI Small and Micro Industries Loan as Equity (SBI SMILE) - SERVICES Code 6220-6511

Product description: SBI Small and Micro Industries Loan as Equity (SBI SMILE)- MANUFACTURING Code 6210-6511

They have further advised as under:

- i. Minimum withdrawal has been set as Rs.1000/- but “further debits in multiples of Rs.1000/-“will have to be handled procedurally.
- ii. Processing charge has been set @ 1% of loan amount.
- iii. The requirements
 - (a) Only one account per customer under this product code
 - (b) The account under this code should be opened only if other TL accounts are opened
 - (c) The stipulation of eligible amount indicator
 - (d) Credit Rating indicator and
 - (e) Maximum moratorium period will have to be handled procedurally

4. We expect the Circles to popularize the scheme in their area of operation. Six monthly progress reports as per enclosed format need to be forwarded to this office as on 31st March and 30th September respectively.

Yours Faithfully,

Chief General Manager

SBI Small and Micro Interest-free Loan as Equity
(SBI SMILE)

1.1 **Objective:** The scheme envisages grant of interest free loan repayable over a long period to assist eligible professional and technically qualified entrepreneurs setting up new Micro and Small enterprises (MSEs) and units covered under the Bank's Project Uptech for technology upgradation. The salient features of the scheme are as under:

1.2 **Eligibility criteria**

a). It should be a new unit i.e., the person approaching for interest-free loan as equity loan assistance (ELA) should be setting up his activity for the first time excepting in the case of units covered under the Bank's Project Uptech programme where the units are already in operation.

b). Equity assistance is provided only to persons genuinely not able to meet the necessary margins from their own resources.

c). The entrepreneur must devote his direct and full attention to the unit. He should not be involved in any other unit in any capacity-proprietary or administrative.

d). The entire borrowings should be confined to the Bank.

e). The project should be eligible for assistance under any of the Bank's Liberalised scheme.

f). Professionals and Technically qualified persons for this scheme will cover doctors including dentists, engineers (diploma and degree holders), management graduates etc.

g). The unit should be engaged in activities eligible for classification as Micro and Small Enterprises under MSME Act excepting retail trade. The investments in plant and machinery/ equipments of such units should also conform to the eligibility criteria of Micro and Small enterprises under the Act.

h). The total cost of the project should be more than Rs.10.00 lacs.

1.3 **Extent of assistance:**

Equity assistance up to a maximum of Rs.10 lacs for Micro and Small Scale industries and units under Project Uptech and Rs.5 lacs- for professionals and self-employed persons can be granted subject to a minimum of Rs.1.00 lacs for industrial units and Rs.50,000/- for professionals and self employed persons. Equity assistance should be in multiples of Rs.1000/- rounded off to the nearest thousand. Though request for second ELA to an eligible borrower for expansion of activity **should not** be entertained, during the process of implementation of the project, if there is any escalation in the project cost, additional ELA may be considered, subject to the above ceilings.

1.4 **Computation of assistance:**

The actual amount of assistance to be granted under the Scheme, subject to the ceiling mentioned above, is the difference between the applicable margin and the capital contributed by the entrepreneur including seed capital and subsidy, if any. Minimum margin required is 15%. However, the capital contribution by the entrepreneur should not be less than 50% of the margin requirement as stated above.

1.5 **Minimum equity contribution:**

Every entrepreneur will have to contribute a minimum share 7.5% of the cost of project as equity.

1.6 **Application, appraisal and sanction:**

No separate loan application form is required for assistance under the ELA as it is an integral part of the loan under the Bank's other schemes. A separate letter from the borrower requesting equity assistance should, however, be obtained. The procedure for appraisal and sanction is the same as in normal cases. However, techno-economic vetting may got done by Bank's Consultancy Services Cell/external consultants. Control Return should be submitted to the Controlling Authority.

1.7 **Security:**

The security available for other loans to the unit should be extended to cover equity assistance also.

1.8 **Interest:**

Funds lent under the Equity Loan Assistance Scheme will bear no interest. Other loans sanctioned to the unit will carry interest at normal rates prescribed by the Bank from time to time. In the event of mis-utilisation of the loan or non-compliance of stipulated terms, etc., the loan account for equity fund assistance would attract interest, at the Bank's discretion, even for the entire period.

1.9 **Documentation:**

As per the Manual on Documentation.

1.10 **Repayment:**

ELA can be repaid over a period of 3 years after an initial moratorium period of 5 to 7 years (during which period other term loans are repaid).

1.11 **Accounting system:**

Equity Loan Assistance will be sanctioned and disbursed in the same manner as Term Loans. Each ELA account should be styled as "M/s _____ ELA A/c." and maintained along with other Medium Term Loan accounts.

1.12 **Disbursement:**

ELA may be disbursed in lump sum or in instalments, depending on the convenience of the unit as a Clean Term Loan. The component relating to the working capital requirement should be credited to the cash credit account of the unit.

1.13 **Follow-up:**

As the Bank would be disbursing the amount by way of a Clean Term Loan for a long period, the performance of the unit should be closely monitored.

Assistance of the Bank's Consultancy Services Cell /Empanelled Consultants may be sought for vetting the project report and solving the problems, if any, faced by the unit.

1.14 **Reporting:**

A return on Equity Loan Assistance on the prescribed format as given in Annexure-IA) should be sent at half yearly intervals to the Local Head Office who in turn would arrange to compile the return for the Circle and send a copy to Central Accounts Office and SME BU at Corporate Centre.

Annexure-IA

STATE BANK OF INDIA, _____ CIRCLE

SBI Small and Micro Interest-free Loan as Equity (SBI SMILE) REPORT FOR THE HALF-YEAR ENDED 30TH SEPTEMBER/31ST MARCH

(Rs. In lacs)

Sl No.	Name of the unit and its proprietor/partners	Date of Sanction	Town/city where located	Product / Activity	Total project cost	Unit's contribution to equity	Assistance sanctioned under ELA	Total of other loans sanctioned by the Bank	Outside loans, if any	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Total sanctioned during the half-year : Rs. _____ (_____units)

Cumulative sanctions under "SBI SMILE": Rs. _____ (_____units)

Date: